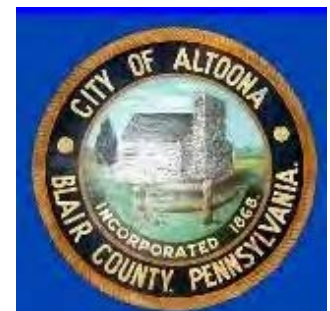




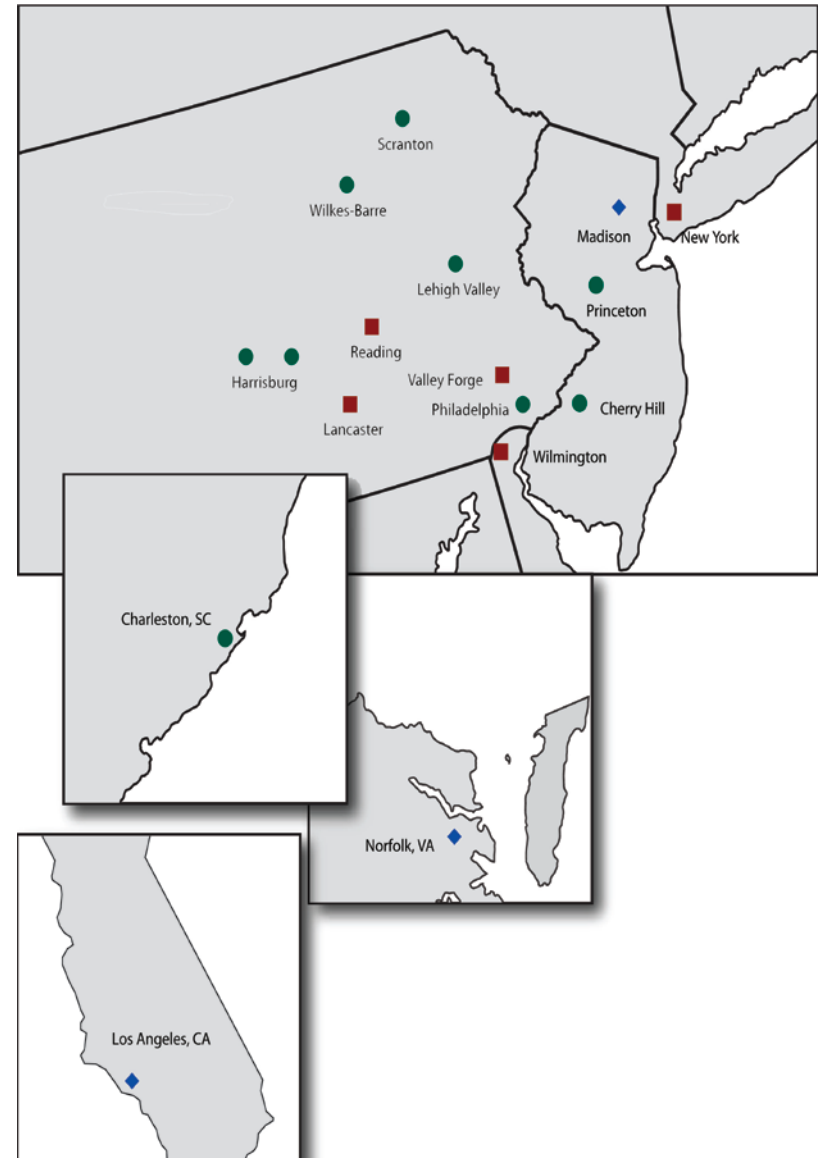
A Strategic Opportunity for the City of Altoona





I. About Griffin

- ◆ Griffin is a FINRA licensed middle market investment banking firm; the largest headquartered in Pennsylvania
- ◆ Griffin is part of an integrated professional services firm consisting of:
 - Full service AmLaw 200 law firm with a strong State and Local Government client base
 - State Government Affairs and Lobbying group
 - State and Local government revenue and operations consulting group
 - Health care “best practices” consulting business serving the hospital and physician communities
 - D&O and E&O insurance risk consulting and brokerage business
 - Several other businesses which expand our platform
- ◆ Our 240 multidisciplinary professionals based in 7 States enable a national presence with a focus on the greater Mid-Atlantic region of the U.S.



What Makes Griffin Different?

Deal Volume and Track Record	Strong Research Capabilities
<ul style="list-style-type: none"> ◆ Over 150 transactions closed since founding in 2001, almost all of which required a market-based competitive process as part of the engagement ◆ Over 1,000 deals closed by Principals during careers ◆ Griffin ranked #1 of the Philadelphia Business Journal Pennsylvania investment banks in 2012 and 2013 	<ul style="list-style-type: none"> ◆ Full-time research professionals ◆ Intensive research, analytical, and modeling capabilities ◆ Subscriptions to numerous databases – Bloomberg, Capital IQ, Preqin, SNL, Bond Buyer, etc.
Financial Accounting and Tax	Client Perspective
<ul style="list-style-type: none"> ◆ Platform professionals include eight former Big Four Certified Public Accountants (“CPAs”) and four professionals with LLM in Taxation ◆ Hands on experience applying FASB, GASB and mark-to-market rules ◆ Extensive due diligence and forensic accounting expertise 	<ul style="list-style-type: none"> ◆ Many of our professionals are former elected or appointed public officials from all levels of government, including a former leader of the Senate, a former Secretary of DCED, a former General Counsel to the Commonwealth, two former General Counsels to the State Treasurer and former legislators and staffers ◆ Enables Griffin to understand the strengths, weaknesses, opportunities, and threats to an entity from the perspective of the client
Depth and Breadth	Middle-Market and State and Local Government Focus
<ul style="list-style-type: none"> ◆ Over 40 professionals and affiliated with a large professional service organization with over 200 professionals ◆ Diverse M&A and capital markets experience 	<ul style="list-style-type: none"> ◆ Specializing in financing institutions, privately held companies and local government entities ◆ Since 2009, closed 20 sewer and/or water transactions over our platform (City of Reading, City of Scranton Sewer, ◆ Griffin is currently engaged by multiple municipal water and sewer authorities ◆ Griffin is currently engaged as structuring agent to The Pennsylvania Higher Education Assistance Agency (PHEAA) and has advised PHEAA on over \$3.8 billion of transactions over the past two years.



II. Executive Summary

- ◆ The City of Altoona (the “City”) is evaluating a lease of The Altoona Water Authority’s (the “Authority” or “AWA”) water and sewer systems (the “System”) as a long-term solution to challenging fiscal constraints
- ◆ The primary goals of a long-term lease would be to generate up-front proceeds to:
 - Fully fund all city pensions
 - Retire City debt
 - Reduce property tax
- ◆ Additional goals are to:
 - Maintain ownership of the System after the expiration of the lease
 - Maintain oversight over the management and integrity of the System assets (upkeep and maintenance)
 - Maintain control over water quality
 - Maintain control over water and sewer rates and charges
 - Honor all current labor contracts and hire all employees under the same wages and benefits
 - Exit Act 47 recovery proceedings
- ◆ The purpose of this presentation is to summarize the matters relating to a long-term lease and address any concerns of the community

- ◆ A persistent fiscal imbalance has resulted in the need for the City of Altoona to find long-term solutions to its budgetary challenges
 - In 2012, the city was declared “financially distressed” under the provisions of Section 203(c) of the Municipalities Financial Recovery Act (Act 47 of 1987, as amended) (“Act 47”)
- ◆ A long-term fiscal solution is imperative to insure the City’s financial stability
- ◆ Griffin believes a long-term lease of the System to a third-party could produce sufficient proceeds to avert budget deficits and restore the City to fiscal health

- ◆ The Altoona Water Authority was created as an operating authority in 1946, and assumed operational responsibility of the City's water and wastewater systems in 1981 and 1986 respectively
- ◆ The AWA obtains the majority of its water supply from a network of 11 surface water reservoirs located throughout Blair County
- ◆ The AWA provides water services to about 60% of Blair County's residential, commercial and industrial water system users
 - The water system serves a population of roughly 70,000 people with around 23,000 customer accounts in 11 municipalities
- ◆ AWA's two wastewater treatment facilities treat a combined total of 18 million gallons of wastewater per day, with each facility capable of treating up to 20 million gallons per day if necessary
 - The wastewater system serves a population of around 50,000, with approximately 19,000 customer accounts in the City of Altoona and parts of Logan and Allegheny Townships

- ◆ Griffin performed an analysis of valuation related information on publicly traded companies in the water/sewer industry and similar valuation related information on transactions involving leases and sales of water systems to arrive at a preliminary range of potential market values for Altoona's System⁽¹⁾
 - In conducting the analysis Griffin noted a substantial amount of long-term lease/sale activity in the water/sewer utility industry – evidence that this is an increasingly common strategy adopted by municipalities to solve financial challenges
- ◆ **Based on this analysis, the System, in a vibrant, dynamic, competitive process meeting applicable legal requirements, should be worth \$180-\$240+ million, depending on the magnitude of the rate and other restrictions placed upon bidders**
 - Substantial additional value may exist if the City elects to sell excess capacity from one or more of its reservoirs
- ◆ The City should be able to realize the best pricing by the use of a controlled, transparent and competitive lease bidding process meeting all of the requirements of existing law
 - The only true way to determine the value of any asset is to approach the market in a vibrant, competitive process
 - This is particularly true in the case of the System because of its advantageous location near the Marcellus Shale and the presence of the System's 11 reservoirs
- ◆ The Altoona Water Authority, and any other municipal authority, could be invited to submit a bid for the long-term lease of the System

(1) Procedures performed do not constitute a formal valuation but rather a range of possible values based on Griffin experience and recent market data. A formal assessment of the valuation of the System is subject to the Fair Market Value and Fairness Opinion Committee of Griffin.

What a Lease will do Financially for the City

- ◆ Griffin analyzed the City's potential use of proceeds from the perspective of how to most effectively solve the City's budget deficit
- ◆ At the \$180 million low end of the range, the proceeds would be enough to:
 - 1) Pay off all of the debt of AWA
 - 2) Pay off all of the debt of the City, resulting in \$2.0 million annual saving on debt service
 - 3) Fully fund all City pension funds (Police, Fireman, and Non-Uniformed Employees Pension Funds) resulting in much lower actuarially and legally required City contributions (MMOs) in the future
 - 4) Reduce Property Tax - Example: if the City paid off all of its debt, the property tax dedicated to debt will be eliminated
 - 5) Any remaining proceeds can be transferred to the City
- ◆ If a competitive process yields a valuation in excess of \$180 million, additional proceeds could be transferred to the City's General Fund

- ◆ Currently the City's Police, Fireman, and Non-Uniformed Employees Pension Plans (the "Plans") are underfunded
- ◆ According to the City's FY 2012 Audit, there are a total of approximately \$22.1 million of unfunded pension obligations
 - ◆ Police Pension Unfunded Liability - \$7.92 million (valued as of January 1, 2011)
 - ◆ Fireman's Pension Unfunded Liability - \$13.29 million (valued as of January 1, 2011)
 - ◆ Non-Uniformed Employees Pension Unfunded Liability - \$851k (valued as of January 1, 2011)
- ◆ Based on the low end \$180 million potential value of the System, and after paying off all City and AWA debt, sufficient proceeds from a long-term lease of the System would be available to fund 100% of this underfunding

Rate & Charges

- ◆ Griffin's analysis of the preliminary potential market value of the System assumed water and sewer rates and charges would remain status quo
- ◆ Rates can be capped contractually in the lease agreement for some period of time
- ◆ If the lessor is a private company it would be subject to PUC regulations on raising rates in addition to any contractually capped rates in the lease agreement ("double rate protection")

Jobs

- ◆ A lease agreement could contractually obligate the lessor to:
 - Hire all employees and maintain wage rates and benefits
 - Assume the existing union contract
 - When the current union contract expires the lease agreement will require the leasing entity to bargain in good faith

- ◆ In addition to the foregoing, a long-term lease of the System can be structured to also address the following:
 - **Condition of Assets:** An Operating Standards Agreement (“OSA”) would govern the operations, upkeep and maintenance of the System post-closing
 - **Oversight:** The City would contractually have oversight and legal remedies if the standards set forth in the OSA are not met
 - **Operation:** Operation of the assets reverts back to the City at the end of the lease
 - **Water Quality:** An Operating Standards Agreement (“OSA”) would govern the water quality of the System post-closing
 - **Act 47:** A quantum leap will be made towards exiting Act 47 by reducing the City’s MMO payments, paying off debt and providing the City time to continue to implement other cost cutting / revenue producing initiatives

III. Takeaways

- ◆ The System is a very valuable asset that the City, in light of the City's financial challenges, could potentially take back and lease to solve the City's projected budget deficit
- ◆ In particular, a long-term lease could allow the City to:
 - 1) Pay off the debt of the System
 - 2) Pay off the outstanding debt of the City, resulting in \$2.0 million annual saving on debt service
 - 3) Reduce Property Tax (if City debt is paid off – Debt Service Property Tax would be eliminated)
 - 4) Make contributions that fund 100% of the Police, Fireman, and Non-Uniformed Employees Pension Funds and reduce the City's MMO payments
 - 5) Have proceeds leftover that can be transferred to the City's General Fund
- ◆ The above may be accomplished while also:
 - 1) Protecting rate payors through contractual rate caps or PUC restrictions
 - 2) Protecting jobs by requiring assumption of union contracts and hiring of all employees by the lessor with the same wages and benefits
 - 3) Protecting the condition of the assets and water quality through an Operating Standards Agreement and oversight by the City post-closing
 - 4) Retaining ownership of the asset as it will revert to the City at the end of the lease term
 - 5) Making a quantum leap towards exiting Act 47

IV. Griffin Process

- ◆ During the initial phases of the engagement, Griffin would work with the City to understand the importance of the following considerations:
 - Maximization of proceeds to the City
 - Provide rate protection to customers
 - Maintaining existing workforce, union contracts, wages and benefits
- ◆ **Griffin would tailor the process to structure the best deal for the City however the City defines it**
- ◆ **If the process yields unsatisfactory offers, the City has the right to stop the process at any time**

Advantages of the “Process”

- ◆ Prepares City prior to approaching the market
- ◆ Introduces a wider universe of potential lessors – strategic and financial
- ◆ Creates a competitive atmosphere
- ◆ Maintains transaction momentum – “time kills deals”
- ◆ Helps to minimize execution risk
- ◆ Enables management to better focus on the core business

Griffin’s Approach

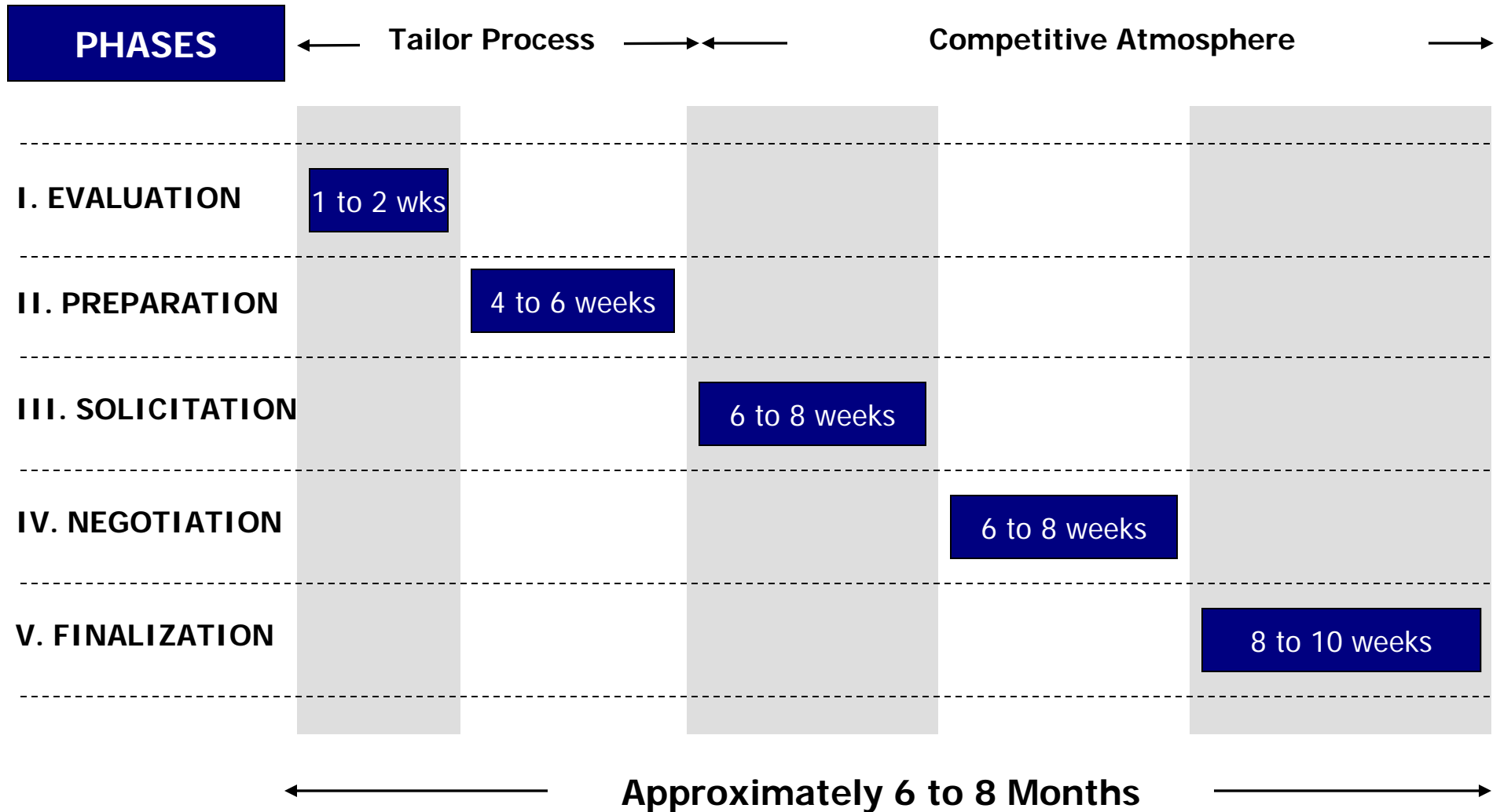
- ◆ Tailor process to City’s specific objectives and priorities
- ◆ Gain an in-depth understanding of the business
- ◆ Create a comprehensive memorandum that positions the City in the most favorable light possible
- ◆ Keep potential lessors on a tight, but reasonable, timeframe
- ◆ Ensure City is in control of process
- ◆ Qualify potential lessors – willingness to pay does not necessarily correspond with ability to pay
- ◆ Maximize value to the City

Typical Lease Engagement Phases Overview

Evaluation	Preparation	Solicitation	Negotiation	Finalization
<ul style="list-style-type: none"> ◆ Determine City objectives and priorities ◆ Perform preliminary analysis of System and industry ◆ Research market environment ◆ Negotiate and sign engagement agreement with City 	<ul style="list-style-type: none"> ◆ Perform Griffin's client and industry due diligence ◆ Prepare potential documents to "go to market" <ul style="list-style-type: none"> • "No-name" System summary • Memorandum ◆ Research and identify potential lessors ◆ Determine potential lessors to contact ◆ Prepare lessor data room files 	<ul style="list-style-type: none"> ◆ Contact potential lessors on a "no-name" basis ◆ Distribute memorandum to potential lessors ◆ Solicit and negotiate 1st round bids ◆ Select potential lessors to meet with management and participate in facility tours ◆ Hold management presentations / tours ◆ Solicit and negotiate 2nd round bids 	<ul style="list-style-type: none"> ◆ Provide data room files to remaining potential lessors ◆ Distribute draft lease and operating standards agreements to remaining potential lessors ◆ Address due diligence questions and requests ◆ Solicit and negotiate 3rd* round bids / letters of intent and, "mark-up" to the transaction agreements ◆ Choose a potential lessor to move to the final phase <p>* additional bid rounds may be required or desired depending on the process</p>	<ul style="list-style-type: none"> ◆ Lead negotiation of the "business" and "economic" issues in the transaction documents ◆ Interface with City's other advisors <ul style="list-style-type: none"> • Legal ◆ Coordinate and manage final lessor due diligence ◆ Maintain transaction momentum and sense of urgency until close

In each phase, the City has the opportunity to control the direction of the process

Typical Lease Engagement Timeline



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